

10 August, 2017

Hong Kong Exchange and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Via electronic submission: response@hkex.com.hk

Re: New Board Concept Paper

Dear Sir or Madam:

State Street Global Advisors¹ ("SSGA") appreciates the opportunity to comment on the New Board Concept Paper ("Concept Paper") issued by the Hong Kong Exchanges and Clearing Limited ("HKEX") regarding the creation of two new boards for the primary purpose of attracting listings of New Economy companies. SSGA is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors. We have a global presence and research focus with 29 global offices, 10 investment centers and a 24-hour global trading capability with trading desks in Boston, London and Hong Kong. With over \$2.6 trillion (USD) of assets under management ("AUM") across a range of asset classes and investment styles, SSGA is a large global investment manager. In addition, SSGA is also one of the largest investment managers in Hong Kong with more than \$36 billion (USD) of Hong Kong managed AUM.²

For SSGA, Hong Kong has served as a gateway to investing in the region's companies for over 25 years. Our support for Hong Kong as an investment destination is based on the high quality of accounting and corporate governance standards espoused in Hong Kong's legal and regulatory framework. Maintaining this standard is essential if Hong Kong is to continue attracting quality company listings. Any dilution of these standards, while beneficial in the short-term in attracting large initial public offerings, could adversely impact company valuations and market liquidity in the long term.

At SSGA, we take our fiduciary duties as an asset manager very seriously. We have a dedicated team of corporate governance and ESG professionals who help us carry out our duties as a responsible investor. These duties include developing and enhancing in-house corporate governance policies, engaging with companies and analyzing corporate governance issues on a case-by-case basis at the company level, and exercising our voting rights, all to maximize shareholder value. In our view, corporate governance is an integral part of the investment process. SSGA regularly engages companies to discuss corporate governance issues, and provide insight on the principles and practices that drive our voting decisions. We seek to strengthen the quality of corporate governance through discussions with boards and management, which can also help protect and enhance shareholder value.

We welcome the HKEX's desire to increase sector diversity of its listings through attracting premier IPOs and exemptions for pre-profit companies. Furthermore, we appreciate the attempt to find a solution for Mainland Chinese companies to have secondary listings on the HKEX's boards. However, we believe that the introduction of Weighted Voting Rights ("WVR") is not the right approach to achieve the stated

Information Classification: General

¹ State Street Global Advisors is part of State Street Corporation whose identification number in the European Transparency Registry is 2428270908-83.

² AUM positions as of June 30, 2017.

objectives. In our paper, *Shareholder Rights in the Age of Snap*,³ we call on regulators and exchanges to stem the tide of WVR IPOs and reiterate that call to action here.

The straw man proposal to create new Pro and Premium boards will materially dilute shareholder rights. Specifically, we are concerned that the proposal for both boards includes the introduction of WVR. The HKEX last considered the introduction of WVR in 2014 and concluded that it was not in the best interest of market participants, and we believe that is still the case. We also note the SFC view regarding the matter of WVR of 25 June 2015.

We recognize that since the 2014 consultation several Asian domiciled companies have chosen the US exchanges over the HKEX to launch their IPOs, likely in part to be able to have WVR. While the exchanges may celebrate the new listings, investors are standing up to the idea of winning an IPO at any cost. Recently, both FTSE Russell⁴ and Standard and Poor's⁵ responded to shareholder pressure by announcing that they would limit the role of WVR companies in some indices.

SSGA strongly advocates a one-share-one-vote principle in every market that it invests in as we believe that it is a founding principle on which all other shareholder rights are built. Granting shareholders voting rights at shareholder meetings was designed to mitigate the inherent principal-agent problem that exists in publicly-listed companies. Institutional investors rely on these voting rights to execute their stewardship responsibilities in investee companies. Granting weighted or unequal voting rights to some shareholders, particularly if they are controlling shareholders, dilutes this authority, making it difficult for us to provide the oversight needed in financial markets.

Further, any deviation from alignment between a shareholder's economic interest and his/her voting interest can potentially increase the risk of misappropriation of company assets by the controlling shareholders or management. As non-controlling, minority shareholders in listed companies, it is imperative that we have voting rights that reflect our economic interest. Fundamentally, we appoint directors to oversee companies. If we do not have the ability to hold directors accountable and the company is not going in the right direction, then we have limited ability to effect change.

Finally, the Concept Paper clearly states that the intention is to maintain the Main Board as the "premier" board, but proposes a solution that would attract premier names, such as Alibaba or JD.com, to the subordinate board.⁶ Launching growth companies into the public market with governance structures that will never qualify them for the premier board will only lead to market bifurcation.

Information Classification: General

³ *Shareholder Rights in the Age of Snap*, State Street Global Advisors, 2017, available at <https://www.ssga.com/investment-topics/environmental-social-governance/2017/Shareholder-Rights-in-the-Age-of-Snap.pdf>


⁴ FTSE Russell Voting Rights Consultation – Next Steps, available at http://www.ftse.com/products/downloads/FTSE_Russell_Voting_Rights_Consultation_Next_Steps.pdf

⁵ S&P Dow Jones Indices Announces Decision on Multi-Class Shares and Voting Rules, available at https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/561162_spdiimulti-classsharesandvotingrulesannouncement7.31.17.pdf?force_download=true

⁶ Concept release paragraph 118.

Thank you again for the opportunity to comment on the important matters raised within this Concept Paper. Please contact Kevin Anderson, Head of Investments, Asia-Pacific via email at Kevin_Anderson@ssga.com in the first instance if you would like to discuss any of our responses in further detail.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'K. Anderson', written over a horizontal line.

Kevin Anderson
Head of Investments, Asia-Pacific